

RURAL WATER DISTRICT NUMBER 1

Franklin County

Ottawa, Kansas

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

December 31, 2019

RURAL WATER DISTRICT NUMBER 1
Franklin County
Ottawa, Kansas

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Year ended December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District Number 1
Franklin County
Ottawa, Kansas

We have audited the accompanying financial statements of Rural Water District Number 1, Franklin County, Ottawa, Kansas, which comprise the statement of net position as of December 31, 2019 and the related statements of revenues, expenses and changes in net position and the statement of cash flows for the year then ended and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

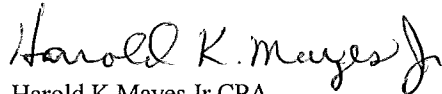
In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Rural Water District Number 1, Franklin County, Ottawa, Kansas as of December 31, 2019, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Rural Water District Number 1, Franklin County, Ottawa, Kansas has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as noted in the table of contents taken as a whole. The revenues and expenses compared to budget (Schedule 1 listed in the table of contents) is presented for analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statements itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Harold K. Mayes Jr.".

Harold K Mayes Jr CPA
Agler & Gaeddert Chartered
Ottawa, Kansas
April 22, 2020

Rural Water District Number 1
Franklin County, Kansas

STATEMENT OF NET POSITION
December 31, 2019

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 833,961
Certificates of Deposit	680,677
Accounts Receivable	34,409
Line Extension Receivable	49,785
Prepaid Insurance	<u>1,216</u>
Total Current Assets	<u>1,600,048</u>
Non-Current Assets	
Capital Assets	3,613,705
Accumulate Depreciation	<u>(1,750,826)</u>
Total Property Plant and Equipment	<u>1,862,879</u>
Total Assets	\$ <u><u>3,462,927</u></u>

LIABILITIES AND NET POSITION

Current Liabilities	
Accounts Payable	\$ 3,485
Customer Credits	5,345
Accrued Liabilities	1,096
Payroll Liabilities	<u>2,390</u>
Total Current Liabilities	<u>12,316</u>
Net Position	
Invested in Capital Assets	1,862,879
Unrestricted	<u>1,587,732</u>
Total Net Position	<u>3,450,611</u>
Total Liabilities and Net Position	\$ <u><u>3,462,927</u></u>

The accompanying notes are an integral part of this statement.

Rural Water District Number 1
Franklin County, Kansas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2019

Operating Revenues	
Water Sales	\$ 374,819
Capital Improvement Revenue	<u>104,549</u>
Total Operating Income	<u>479,368</u>
Operating Expenses	
Water Purchased	164,185
Clean Drinking Water Fee	1,427
Salaries and Payroll Taxes	170,642
Utilities	11,057
Office Rent	3,600
Board Member Expenses	4,780
Training	1,217
Repairs and Maintenance	43,307
One Call Locations	311
Professional Fees	26,002
Memberships	1,221
Depreciation	104,697
Supplies	13,488
Postage	5,158
Internet	1,317
Insurance and Bonds	10,207
Telephone	3,584
Vehicle Expense	9,063
Mileage	2,144
Uniforms	878
Miscellaneous Expense	<u>113</u>
Total Operating Expenses	<u>578,398</u>
Total Operating Income (Loss)	<u>(99,030)</u>
Non-Operating Revenues (Expenses)	
Interest Income	13,709
Late Fees	13,798
Miscellaneous	<u>14,661</u>
Total Non-Operating Income (Loss)	<u>42,168</u>

The accompanying notes are an integral part of this statement.

Rural Water District Number 1
Franklin County, Kansas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2019

Income (Loss) Before Capital Contributions	\$ (56,862)
Capital Contributions	
Benefit Units	<u>35,000</u>
Total Capital Contribution	<u>35,000</u>
Net Income (Loss)	(21,862)
Total Net Position, Beginning of Year	<u>3,472,473</u>
Total Net Position, End of Year	\$ <u><u>3,450,611</u></u>

The accompanying notes are an integral part of this statement.

Rural Water District Number 1
Franklin County, Kansas

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

Cash Flows from Operating Activities	
Cash Receipts from Customers	\$ 378,256
Cash Receipts from Line Extensions	111,699
Cash Payments to Suppliers of Goods or Services	(304,031)
Cash Payments to Employees for Services	<u>(171,740)</u>
Net Cash Provided by (Used In) Operating Activities	<u>14,184</u>
Cash Flows from Investing Activities	
Cash Invested in Certificates of Deposits	(13,365)
Interest Income	<u>13,709</u>
Net Cash Provided by (Used In) Investing Activities	<u>344</u>
Cash Flows from Noncapital Financing Activities	
Late Fees	13,798
Miscellaneous Non-Operating Revenue	<u>14,661</u>
Net Cash Provided By (Used In) Investing Activities	<u>28,459</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from Sale of Benefit Units	35,000
Acquisition and Construction of Property, Plant & Equipment	<u>(138,915)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(103,915)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(60,928)</u>
Cash and Cash Equivalents, Beginning of Year	<u>894,889</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 833,961</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating Income (Loss)	\$ (99,030)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:	
Depreciation	104,697
Changes in Assets and Liabilities Not Currently Affecting Cash:	
(Increase) Decrease in Accounts Receivable	3,949
(Increase) Decrease in Line Extension Receivable	7,150
Increase (Decrease) in Accounts Payable	(972)
Increase (Decrease) in Customer Credits	(512)
Increase (Decrease) in Accrued Liabilities	(2)
Increase (Decrease) in Payroll Liabilities	<u>(1,096)</u>
Net Cash from Operating Activities	<u><u>\$ 14,184</u></u>

The accompanying notes are an integral part of this statement.

Rural Water District Number 1
Franklin County, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting principles consistently applied in the preparation of the accompanying financial statements are noted as follows.

1. Financial Reporting Entity

The scope of the entity for financial reporting purposes is defined as those funds for which the Rural Water District Number 1 (here in referred to as the District) is considered to be financially accountable. The District's financial statements include all of its operations. The District is a separately administered organization. The District has no component units. The District is a quasi-municipality governed by an elected six-member board.

2. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The government-wide financial statements include the statement of net position. This statement reports financial information for the District as a whole. Individual funds are not displayed but the statements distinguish between governmental activities generally supported by taxes and general revenues (of which the District does not have any), from the business-types activities, generally financed in whole or in part with fees charged to external customers. The District is a special-purpose government engaged in a single governmental program (delivery of water to customers in Franklin County, Kansas).

The statement of revenues, expenses and changes in net position reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities, expenses and program revenues associated with a distinct functional activity. Program revenues include charges for water sales, fines, forfeitures, and other charges to users of the District. All other revenues not properly included with program revenues will be reported as other revenues.

3. Measurement focus and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The District's statements will report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses or capital assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in the financial statements includes revenues and expenses related to the primary and, continued operations of the District. Operating revenues are charges to customers for sales or services. Operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Rural Water District Number 1
Franklin County, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE A. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

4. Fund Types and Major Funds

Governmental funds: The District has no governmental funds.

Business-type funds: The District has one major enterprise fund. The Water fund accounts for the operating activities of the District's water utilities services.

5. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are short term, highly liquid investments having original maturities of three months or less, not restricted for contingencies.

6. Accounts Receivable

The direct write-off method is used for bad debts. Accounts receivable are written off when deemed uncollectible. Accordingly, no allowance for bad debts has been recorded.

7. Property, Plant and Equipment

Property, plant and equipment are reported at cost. Major improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repairs that do not extend the life of the applicable assets are charged to expenses as incurred.

Depreciation is provided on the straight-line basis over the estimated useful life of the assets as follows:

Storage Tank	20 years
Building, Pump Station, and Lines	30 - 40 years
Equipment and Vehicles	5 - 10 years

8. Income Tax

The District is not subject to federal or state income taxes as a quasi-governmental unit.

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

10. Revenues

Operating revenues and expenses included the sale of water and the expenses associated with pumping and cleaning the water. Non-operating revenues and expenses consist of investment income and sales of assets.

11. Deferred Outflows and Inflows of Resources

The District does not have any deferred outflows or inflows to report at the current time.

Rural Water District Number 1
Franklin County, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE B - ASSETS, LIABILITIES AND NET POSITION

1. Cash and Investments; Deposits and Investments - K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

Custodial credit risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District did not have any designated "peak periods" for the current year. All deposits were legally secured at December 31, 2019.

At year-end, the carrying amount of the District's deposits which includes certificates of deposit was \$1,514,638 for 2019. The bank balances were \$1,521,765. The difference between book and bank balance is outstanding deposits and checks. The bank balance was held by four banks resulting in a reduction in credit risk. Of the bank balance, \$665,415 was covered by FDIC insurance and \$856,350 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Investments - K.S.A. 12-1675 authorizes the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

2. Accounts Receivable Water users having meters receive a water bill around the first day of each month for the prior month's usage. Payment must be remitted to the District office no later than 15th day of the billing month. Bills not paid by the 16th of the month are subject to a ten percent (10%) late charge. Past due accounts are mailed a "Notice of Delinquency" documenting a discontinuance of the service date if payment is not received. Failure to make payment by said date will result in a discontinuance of the service and possible termination. The District has not established an allowance for doubtful accounts as bad debts are not considered to be material to the financial statements.

3. Capital Assets are detailed as follows:

	Beginning			Ending
Capital assets:	Balance	Additions	Retirements	Balance
Storage Tank	\$ 282,062	\$ 0	\$ 0	\$ 282,062
Buildings, Pump stations, and Lines	3,028,438	66,497	0	3,094,935
Equipment and Vehicles	164,290	72,418	0	236,708
Totals at cost	<u>\$ 3,474,790</u>	<u>\$ 138,915</u>	<u>\$ 0</u>	<u>\$ 3,613,705</u>
Accumulated depreciation:				
Storage Tank	\$ 223,132	\$ 14,103	\$ 0	\$ 237,235
Buildings, Pump stations, and Lines	1,266,406	75,671	0	1,342,077
Equipment and Vehicles	156,591	14,923	0	171,514
Total accumulated depreciation	<u>\$ 1,646,129</u>	<u>\$ 104,697</u>	<u>\$ 0</u>	<u>\$ 1,750,826</u>

Rural Water District Number 1
Franklin County, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE C. - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

The District adopts an internal budget for the support and maintenance of the District.

2. Compliance with Kansas Statutes

Management is not aware of any statutory violations for the year ended December 31, 2019.

NOTE D. - OTHER INFORMATION

1. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. During the last three years, claim settlements have not exceeded insurance coverage.

2. Concentrations of Risk

The District is engaged in the sale of water to customers located in Franklin County Kansas. The District grants credit to those customers and requires no collateral; therefore, the District has a concentration of accounts receivable in this community.

3. Related Party Transactions

The District sells water to members of the Board of Directors at standard rates.

4. Subsequent events

Management has evaluated events through April 22, 2020, the date the financial statements were available to be issued, and determined there are no significant events that require disclosure.

SUPPLEMENTARY INFORMATION

Rural Water District Number 1
Franklin County, Kansas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2019

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
Operating Revenues			
Water Sales	\$ 401,580	\$ 374,819	\$ (26,761)
Capital Improvement Revenue	<u>0</u>	<u>104,549</u>	<u>104,549</u>
Total Operating Income	<u>401,580</u>	<u>479,368</u>	<u>77,788</u>
Operating Expenses			
Water Purchased	179,700	164,185	(15,515)
Clean Drinking Water Fee	1,500	1,427	(73)
Salaries and Payroll Taxes	162,257	170,642	8,385
Utilities	9,000	11,057	2,057
Office Rent	3,600	3,600	0
Board Member Expenses	5,400	4,780	(620)
Training	2,500	1,217	(1,283)
Repairs and Maintenance	36,200	43,307	7,107
One Call Locations	250	311	61
Professional Fees	7,000	26,002	19,002
Memberships	1,000	1,221	221
Depreciation	0	104,697	104,697
Supplies	3,000	13,488	10,488
Postage	4,900	5,158	258
Internet	1,350	1,317	(33)
Insurance and Bonds	10,000	10,207	207
Telephone	3,000	3,584	584
Vehicle Expense	6,500	9,063	2,563
Mileage	1,000	2,144	1,144
Bad Debt Expense	300	0	(300)
Materials	5,000	0	(5,000)
Uniforms	0	878	878
Miscellaneous expense	<u>1,100</u>	<u>113</u>	<u>(987)</u>
Total Operating Expenses	<u>444,557</u>	<u>578,398</u>	<u>133,841</u>
Total Operating Income (Loss)	<u>(42,977)</u>	<u>(99,030)</u>	<u>(56,053)</u>
Non-Operating Revenues (Expenses)			
Interest Income	4,000	13,709	9,709
Late Fees	12,000	13,798	1,798
Miscellaneous	<u>1,000</u>	<u>14,661</u>	<u>13,661</u>
Total Non-Operating Income (Loss)	<u>17,000</u>	<u>42,168</u>	<u>25,168</u>

See Independent Auditor's Report.

Rural Water District Number 1
Franklin County, Kansas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Income Before Capital Contributions	\$ (25,977)	\$ (56,862)	\$ (30,885)
Capital Contributions			
Benefit Units	<u>0</u>	<u>35,000</u>	<u>35,000</u>
Net Income (Loss)	\$ <u>(25,977)</u>	\$ <u>(21,862)</u>	\$ <u>4,115</u>

See Independent Auditor's Report.